

U26
501.07-06
INTERNAL REVENUE SERVICE
District Director

Department of the Treasury

Person to Contact:

Telephone Number:

Refer Reply to:

Date: Jul 26 1989

Dear Sir or Madam:

We have completed our examination of your Forms 990-EZ and 990-T for the period ended . It has been determined that your exempt status should be revoked.

The enclosed report of examination states the basis for the revocation. You have concurred with our determination and have signed an agreement to that effect. Accordingly, your exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code has been revoked effective

As a taxable entity, you will be required to file the appropriate federal income tax return for subsequent years.

Thank you for your cooperation.

Sincerely yours,

Ladd Ellis Jr
District Director

Enclosures

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended

FACTS:

The club was created on _____ by the filing of Articles of Consolidation between the _____ and the _____ . The Club's stated purposes are to serve the _____ by: 1) providing facilities for assemblies and meetings related to the _____ of the _____ ; 2) further friendly intercourse & good fellowship among members; and 3) provide members with food services.

Membership in the Club consists of 4 classes: 1) active - _____ 2) honorary - long & distinguished service to the club; 3) retired members; and 4) guest members - board of trustees, visiting officers of other _____

During the year examined, the club had _____ consisting of _____ couples paying dues of \$36/year and _____ single members, paying annual dues of \$18. Income received from membership dues constituted less than 20% of the club's total income.

The club received _____ from fees charged to members attending dances, picnic and dinner/dances. This income constituted _____ of the club's total income. None of this income was received from non-members. Non-members are only allowed as guests of a member and the member pays the applicable fees.

According to the information submitted, more than _____ of the club's total gross receipts came from investment income. Please refer to Attachment A for a copy of our computations.

LAW:

Section 501(c)(7) of the Internal Revenue Code provides exemption to "Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

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LAW: (cont'd)

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, the exemption extends to social and recreation clubs which are supported by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified merely because it raises revenue from members through the use of club facilities or in connection with club activities.

Prior to the enactment of Public Law 94-568, an organization was required to be organized and operated exclusively for pleasure, recreation and other nonprofitable purposes.

The Committee Reports show that the wording change was intended to make it clear that social clubs may receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without losing their exempt status. Within this 35 percent limitation, no more than 15 percent of gross receipts may be derived from non-member use of the club's facilities and/or services.

Traditionally, inurement has been found to be present where a club derives income from non-member sources and uses it to reduce the cost of providing services to members. Revenue Ruling 58-589, 1958-2 C.B. 266, states, in part, as follows:

" Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support or as an increase in the club's assets which would be distributable to members upon the dissolution of the club."

Revenue Ruling 66-149, published in Cumulative Bulletin 1966-1 on page 146, holds that a social club that regularly derives a substantial part of its income from dividends and interest on investments is not exempt from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code. The ruling states, in part, as follows:

"Here the club's funds are invested primarily for the purpose of producing income through dividends, interest, or capital appreciation. It is evident (1) that such income is regularly derived from nonmember sources, (2) that the income is received in fulfillment of and pursuant to a profit motive, and (3) that the income from investments is substantial in relation to total income. Furthermore, as stated in Revenue Ruling 58-589, above, net earnings inure to members through an increase in services offered by the club, without a corresponding increase in dues, or through an increase in the amount which would be distributed upon dissolution of the club."

Form 886-A

EXPLANATION OF ITEMS

Schedule No. or Exhibit

Name of Taxpayer

Year/Period Ended

CONCLUSIONS:

Based upon the information submitted, your club receives a substantial part of your income from the use of your facilities and services by the general public.

Therefore, we have determined that your exempt status under section 501(c)(7) of the Internal Revenue Code should be revoked.

Inasmuch as the Club filed a Form 990-T for the period examined, the tax reported and paid with that return will be refunded to the club.

15% AND 35% LIMITATIONS ON IRC 501(c)(7) ORGANIZATIONS

PERIOD:

DESCRIPTION	TOTAL	NON-MEMBERS
CONTRIBUTIONS	\$0	\$0
PROGRAM SERVICE REVENUE		\$0
DUES		\$0
INTEREST		\$0
RENTS	\$0	\$0
RENTAL EXPENSES	\$0	\$0
FUNDRAISING	\$0	\$0
FUNDRAISING EXPENSES	\$0	\$0
SALES	\$0	\$0
COGS	\$0	\$0
OTHER REVENUE	\$0	\$0

15% LIMITATION

Percentage of income received from the
use of facilities/services by the public

0.00%

35% LIMITATION

Percentage of income received from all outside sources